

New ECB Framework: Are we there yet?

The Reserve Bank of India (**RBI**) has recently overhauled the external commercial borrowing (**ECB**) framework, through an amendment to the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018 (**ECB Amendment**) notified on February 16, 2026.

Owing to limited capital account convertibility in India, historically, foreign lenders have been looked at with caution and regulatory arbitrage, and that has kept Indian borrowers from aggressively borrowing from foreign sources. Over time, while the ECB regime had liberalised to some extent, overseas debt providers have been kept at an arms' distance, when compared to domestic lenders. We have set out below the key impact of the ECB Amendment to the ECB framework in India, trying to address the golden question – do these changes provide the necessary platform for bridging the arbitrage between foreign and domestic lenders?

Cost of Borrowing: market driven pricing takes lead

In what is perhaps the most path-breaking amendment, the ECB Framework has been amended to remove the shackles of the maximum return that a foreign lender can make on its loans. All-in costs, per the erstwhile regime were capped at (i) benchmark plus 500 bps spread for FCY denominated ECBs; and (ii) benchmark plus 450 bps spread for INR denominated ECBs. Prepayment charges and penal interests were excluded from the all-in costs and capped at 2% over the interest rate, on the outstanding principal. For FCCBs, the issue expenses couldn't exceed 4% of the issue size and 2% in case of private placements. Now, per the ECB Amendment, all-in costs have to be in line with the prevailing market conditions, with the caveat that proceeds of the ECB cannot be used to service these borrowing costs.

This is likely to foster a transparent borrowing environment where lenders can competitively price loans without convoluted fee structures, and auditors can seamlessly verify costs against agreements; ultimately driving superior corporate governance and financial reporting. Yet, RBI's pivot from a rule-based regulation to a principle-based supervision, introduces subjectivity regarding 'prevailing market conditions'. Since the all-in-cost is no longer a check-box, will the structuring burden actually increase? Does this pave the way for true risk-based pricing, allowing lenders to fund lower-rated borrowers at a premium? And more importantly, how will authorized dealer banks look at prevailing market conditions?

Minimum Average Maturity Period: the quiet revolution

A standardized MAMP of 3 (three) years attempts to remove the ambiguity of the erstwhile tiered MAMP construct. The earlier regime imposed a tiered MAMP that varied by end-use and borrower category. The ECB Amendment replaces this with a single, standardised MAMP of 3 (three) years (with manufacturing companies receiving a further concession, reducing their MAMP to just 1 (one) year in certain cases, paired with a tripling of the monetary cap from USD 50 million per financial year to USD 150 million).

This simplification is significant: it makes ECBs more viable, allowing companies to align borrowing tenors closer to their business cycles and alleviating long term cross border lending risks and currency

fluctuation risk for lenders.

The ECB Amendment also carves out scenarios in which MAMP compliance is waived entirely: (a) refinancing of existing ECBs; (b) conversion of ECBs into non-debt instruments; (c) repayment of ECB from proceeds of non-debt instruments issued on a repatriation basis (provided the proceeds are received after drawdown); (d) repayment necessitated by corporate restructuring; and (e) waiver of debt by lenders. This, read alongside the changes to prepayment charges, would invite opportunities for meaningful exits or restructurings before maturity, without regulatory friction.

Borrowing Limits: bigger ceilings, smarter structures

The ECB Amendment has introduced a balance sheet-linked limit: the higher of, (a) outstanding ECB of up to USD 1 billion, or (b) total outstanding borrowing¹ (external and domestic) of up to 300% of net worth per the last audited balance sheet and has done away with the blanket USD 750 million annual cap. Financial sector-regulated borrowers are exempt from this threshold, principally, because they are bound by existing sectoral prudential norms already that perform a similar function.

The new framework lets companies borrow against balance sheet capacity, across years and in multiple tranches. This could fundamentally change how companies plan their capital and funding requirements.

Negative List for End-Use: drawing the red line

Under the earlier regime, end-use restrictions were prescriptive, though loosely framed, leaving room for (mis)interpretation. The ECB Amendment replaces this with a statutorily codified negative list under the newly introduced Regulation 3A. A tabular summary is set out in **Annex A**.

The most consequential inclusion in the permitted category is ECB for financing corporate actions, like mergers, demergers, and acquisition of control. Under the earlier framework, using ECB for equity investment was prohibited, hence, resulting in restrictions in using off-shore funds for funding domestic acquisitions. With removal of the all-in cost ceilings and permission to use ECB for acquisition financing, the doors could open for Indian companies to structure leveraged buyouts with offshore debt, a transaction format that was effectively unavailable under the old framework.

Eligible Borrowers: who is in, who is new and what changed?

The ambit of eligible borrowers has now been widened to include any person resident in India (not being an individual), registered/incorporated/established under a Central or State Act. This delinks the ECB eligibility from the foreign direct investment eligibility, ending a long-standing Catch-22.

LLPs are a particularly notable addition to the list of eligible borrowers. The LLP structure is widely used by Indian businesses, but until now, accessing ECB would have possibly meant converting to a private limited company. Separately, it is also worth noting that the RBI, in its feedback statement, did not accept the suggestion to include trusts as borrowers, implying that a 'trust' cannot raise ECB and

¹ The total outstanding borrowing will exclude non-fund based credit and funds raised through issuance of securities that are mandatorily convertible to equity.

accordingly, continuing to keep AIFs and REITs (that are more often than not structured as trusts) out of the ECB framework.

Additionally, entities (i) that are undergoing restructuring or an insolvency resolution process (*subject to it being permitted under the restructuring or resolution plan*), and/or (ii) against whom any investigation, adjudication or appeal by a law enforcement agency is pending for any contravention under the Foreign Exchange Management Act, 1999 (*subject to disclosures being made*), are also allowed to raise ECB. The message is clear: capital access should aid recovery, not obstruct it. For resolution professionals, this opens a new funding channel for distressed assets.

Recognized Lenders: widening access

Earlier, recognized lenders primarily included residents of FATF/IOSCO compliant countries, multilateral financial institutions, regional financial institutions, and foreign equity holders. The ECB Amendment has fundamentally simplified the 'recognized lender' universe, to now include (i) a person resident outside India; (ii) a branch outside India of an entity whose lending business is regulated by the RBI; and (iii) a financial institution or a branch of a financial institution set up in the International Finance Service Centre (**IFSC**). ECB from a related party is also permitted now, so long as such ECB is structured and carried out on an arm's length basis.

By eliminating the mandatory requirement (i) for individuals to be recognized lenders only if foreign equity shareholders of the borrower; and (ii) of having the FATF/ IOSCO filter; the recognized lender pool has effectively expanded from a narrow set to the world at large. That alone should drive more competitive pricing.

Equally strategic is the inclusion of GIFT City/IFSC entities as recognized lenders. This creates a quasi-domestic offshore channel, and with it, exactly the kind of deal flow the Government envisioned when it established GIFT City.

OTHER NOTABLE CHANGES	
Two-way conversion of currency of borrowing	Conversion of debt between FCY and INR is now permitted in both directions, during the tenor of the ECB (<i>under the earlier regime, conversion from INR to FCY was prohibited</i>).
No mandatory hedging	The ECB Amendment removes the mandatory hedging requirements for FCY-denominated ECBs, leaving the decision entirely to the borrower. With this obligation omitted, while borrowers have the flexibility to hedge, associated risks, such as fluctuation of currency, also will need to be absorbed by them.
Removal of NOC for security	Borrowers no longer need prior approval from an authorized dealer bank to create/cancel charges on assets or issue guarantees to secure an ECB. This considerably liberalizes the security creation process.
Event-based reporting	The shift from periodic to event-based reporting is, conceptually, a simplification. What the ECB Amendment prescribes is not fewer, but more pointed reporting of events, as they occur; i.e filings triggered by specific events: drawdowns, interest and principal payment, prepayment, change in lender, or change in end-use.

Conclusion

The ECB Amendment reflects a calculated yet progressive evolution of India's cross-border borrowing regime. By streamlining regulatory requirements, recalibrating the MAMP, and broadening the scope for accessing offshore capital, the RBI has taken a step towards balancing regulatory oversight with commercial flexibility. The message is clear: we trust the lenders and borrowers, with limited regulatory oversight and the supervision of authorized dealer banks to negotiate the best terms in their interest.

In this sense, the changes may be viewed as both timely and constructive. They simplify the operational landscape for Indian borrowers and align the ECB framework more closely with contemporary financing needs.

While the regulatory intent is clear, the practical impact will largely hinge on how authorised dealer banks operationalize the new framework. If implemented and utilised as intended, these reforms are poised to foster a more agile and accessible ECB regime, further strengthening India's position in the global financing landscape.

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ANNEX A

SNAPSHOT OF THE END-USE RESTRICTIONS

PURPOSE	END USE RESTRICTIONS
Agriculture, and animal husbandry	Prohibited. <i>Exceptions: floriculture, horticulture, cultivation of vegetable and mushrooms under controlled conditions, development and production of seeds and planting material, animal husbandry, aquaculture, apiculture, pisciculture and services related to agro and allied sectors.</i>
Chit funds and Nidhi Company	Prohibited.
On-lending	Prohibited for any purposes that fall within this negative list.
Plantation	Prohibited. <i>Exceptions: tea, coffee, rubber, cardamom, palm oil tree, olive oil tree plantations.</i>
Real estate business²	Prohibited. <i>Exceptions: (a) for construction development projects, provided that the borrower sells plots only after ensuring development of trunk infrastructure; and (b) for industrial parks, such parks shall comprise of a minimum of 10 units with no single unit occupying more than 50 percent of the allocable area (as defined in the ECB Amendment) and the minimum percentage of the area to be allocated for industrial activity shall not be less than 66 percent of the total allocable area.</i>
Repayment of a domestic INR loan	Prohibited for (i) a loan which was availed for an end-use restricted under the Amended Regulations; or (ii) a loan which is classified as a non-performing asset.
Transactions in listed/unlisted securities	Prohibited. <i>Exceptions: transactions undertaken by an Indian entity for corporation actions (mergers, demergers, acquisition of control etc) in accordance with applicable law and that create long-term value.</i>
Trading in transferable development rights	Prohibited.

² "real estate business" means purchase, sale or lease of land or immovable property with a view to earning profit from there and does not include purchase, sale and lease (not amounting to transfer) of land or immovable property for the following purposes- (a) construction and development of industrial parks, integrated townships and SEZ; (b) development of new industrial project, modernisation and expansion of existing units; (c) any activity under 'infrastructure sector'; (d) construction-development project; (e) commercial or residential properties for own use of the borrower; (f) real estate broking services.